

QUICK TAKE



March 2, 2005

The Human Capital Management Value Map

Deloitte Demonstrates That HR Can Be Strategic

by **Craig Symons**

with Tom Pohlmann, Natalie Lambert, and Olivia Ester

EXECUTIVE SUMMARY

For several years, human resources executives have chanted the mantra that HR is strategic. But what does this really mean? How do you know it, and, even more importantly, how do you measure it? The answers to these questions have been difficult to attain and are mostly subjective and qualitative. However, Deloitte has parlayed its Enterprise Value Map into its new Human Capital Management Value Map, which can clearly articulate the strategic value that HR brings to an organization. Companies that struggle with this subject can use the Human Capital Management Value Map to discover where and how they deliver value through people and HR.

THE ENTERPRISE VALUE MAP

Deloitte has developed the Enterprise Value Map, a highly structured method for a company to examine the components that drive shareholder value and identify potential improvement initiatives. This map serves as a graphic reminder of what a company is doing and why. Its intent is twofold: 1) to help companies change what they do, and 2) to help them do what they do better (i.e., improved execution). According to the value map, there are four main value drivers for increasing shareholder value:

- **Revenue growth.** Revenue growth is primarily a function of volume and price realization — in other words, how much product or service can you sell and at what price.
- **Operating margin.** Top-line revenue growth is fine, but it must be done profitably. Operating margin concerns controlling G&A costs and the cost of goods sold and minimizing income taxes.
- **Asset efficiency.** Asset efficiency consists of three major components: 1) property; 2) plant; and 3) equipment, inventories, and receivables and payables.
- **Expectations.** In addition to the three financial categories, the map includes a fourth category, expectations, which includes company strengths and external factors. Financial performance is good, but most financial measures are lagging indicators and are not necessarily predictors of future performance. The expectations category concerns itself with management and execution capabilities, which are required to ensure strong future performance.

The Human Capital Management Value Map

Deloitte has extended its Enterprise Value Map into the world of HR with the development of the Human Capital Management Value Map. This map is a matrix with the four value drivers of revenue growth, operating margin, asset efficiency, and expectations along one axis and seven human capital dimensions on the other axis (see Figure 1). These dimensions are:

- **Strategic HR alignment.** Strategic HR alignment is the alignment of HR/people strategies with business strategies.
- **Learning and development.** This dimension is the training, coaching, and mentoring of management. Employees fall in this dimension.
- **Performance management and improvement.** This dimension includes total rewards — compensation and benefits, expectations and standards, tracking and evaluation, feedback and coaching, incentives, rewards and recognition, efficiency and effectiveness tools, and career development.
- **Workforce planning, talent management, acquisition, and deployment.** This dimension includes activities pertaining to labor supply and demand, forecasting, sourcing recruiting, onboarding, and succession planning.
- **Organizational capability.** This dimension includes structure, culture, knowledge management, HR performance metrics, people retention, employee relations, communications, public relations, and partner relations.
- **Change leadership and transformation.** This dimension includes HR implications of major business decisions (M&A, consolidation, and outsourcing), adoption of new processes and technology, and cultural transformations.
- **HR services and administration.** This final dimension includes the traditional activities of HR, such as HRIS technology, administration of payroll, benefits, health and wellness plans, management of safety, grievances, incidents, and regulatory compliance.

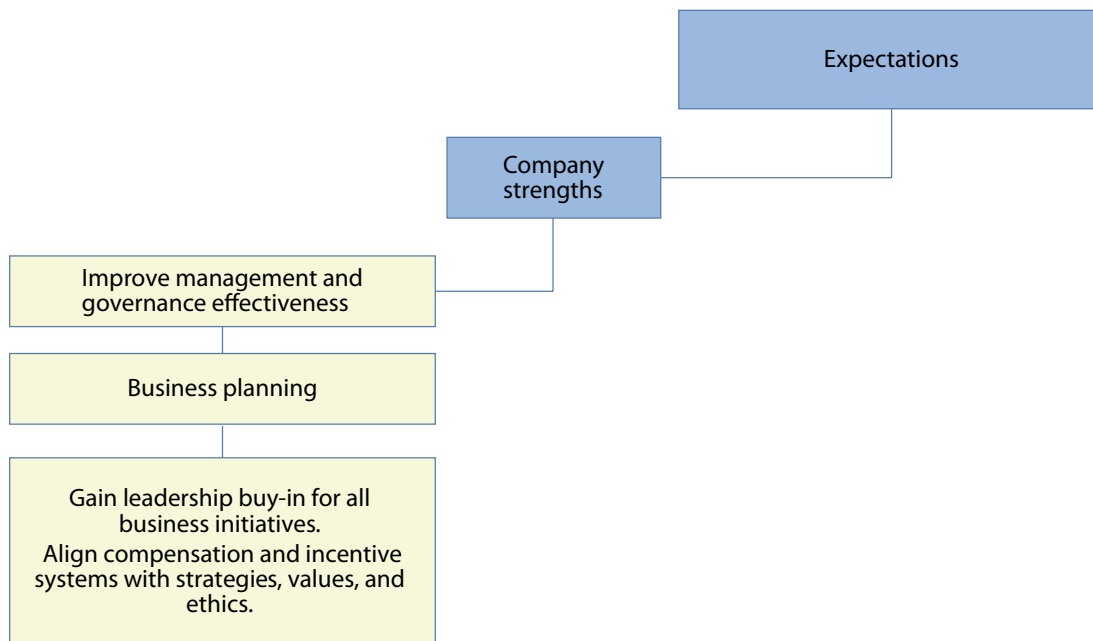
The current Human Capital Management Value Map has more than 400 possible initiatives within the matrix that can be used for business improvement. Clearly, no company can act on all of them, and in some cases not all may apply. But the power of the value map is the ability to visually identify those key initiatives that will have the most effect on improving one or more of the four value drivers (see Figure 2).

Figure 1 The Dimensions Of The Human Capital Management Value Map

	Revenue growth	Operating margin	Asset efficiency	Expectations
Strategic HR alignment				
Learning and development				
Performance management and improvement				
Workforce planning, talent management, acquisition, and deployment				
Organizational capability				
Change leadership and transformation				
HR services and administration				

Source: Forrester Research, Inc.

Figure 2 Sample Improvement Initiatives For A Human Capital Management Value Map Value Driver



Source: Forrester Research, Inc.

Ultimately, using the Human Capital Management Value Map demonstrates the contributions of human capital initiatives toward improved shareholder value and helps executives prioritize and align their HR investments with their company's overall strategic objectives.

Forrester believes that Deloitte's Human Capital Management Value Map represents unique thought leadership in human capital management and is an effective tool for companies struggling with how to better leverage their human capital for strategic advantage.

WHAT IT MEANS

THE HUMAN CAPITAL MANAGEMENT VALUE MAP LEADS TO INCREASED SHAREHOLDER VALUE

Many companies know intuitively that good human capital management practices lead to improved shareholder value, but most companies struggle with how to identify and quantify where these practices have the most effect on their strategic initiatives. The Human Capital Management Value Map goes a long way to solving this problem. Once an organization creates its value map, it has a powerful tool for focusing, prioritizing, and communicating improvement initiatives that will lead to increased shareholder value.